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State Department review completed

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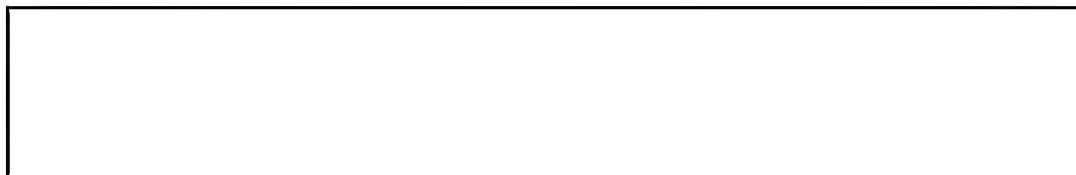
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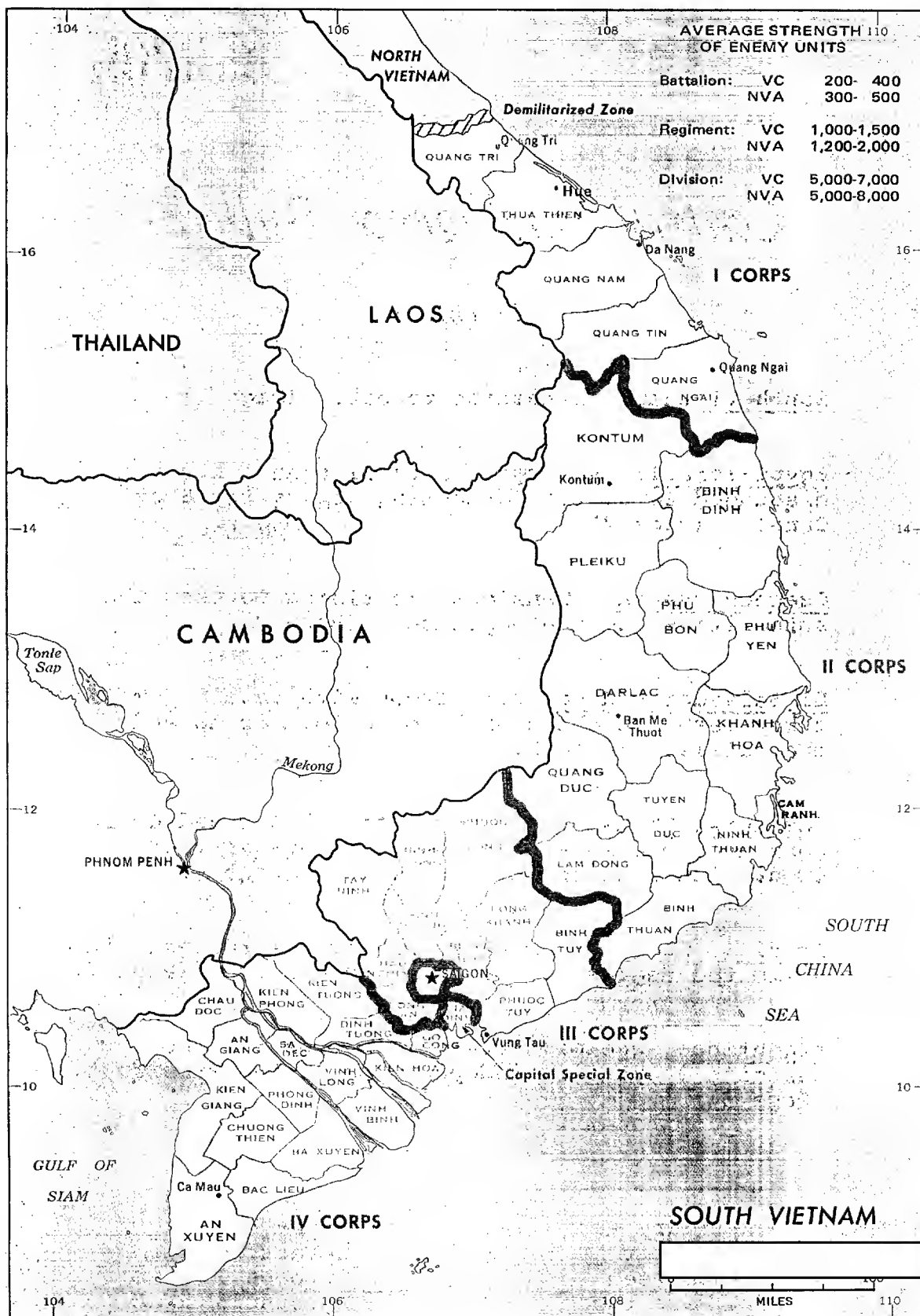
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[South Vietnam: President Thieu is continuing to consult various political groups about the impending cabinet reshuffle without apparent haste to reach firm decisions.

25X1 [] Thieu desires to expand the cabinet to include not only talented politicians from progovernment groups, but also from the opposition. Although government supporters are somewhat cool to the concept of sharing cabinet plums, the principal opposition is said to stem from Prime Minister Huong, who prefers a small cabinet of technicians and with whom Thieu hopes to avoid any public split.

Thieu, in the meantime, has once again modified his election proposals of 11 July before a domestic audience. Addressing a gathering of officials and civil servants on 26 July, the President described his offer of Communist participation as a "tactic" to regain sympathy abroad and as the maximum concession he would make to bring the Communists into serious negotiations. He declared that he would never agree to let the Communists operate in South Vietnam, but that if the country should repudiate his peace initiatives, he would step down and return power to the army.

* * * *

Military activity remained light during the weekend, as it has for the past several weeks. Two battles between US and Communist troops in central I Corps were the only noteworthy ground actions reported. The only shelling of major cities was the firing of two heavy rockets at the outskirts of Hue on 26 July, with no reported casualties or damage.

25X1 [] (Map) **]**

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Egypt-Israel: Israel's new aggressive actions have not thus far dissuaded the Egyptians from attacking across the Suez Canal cease-fire line.

Egyptian jets hit Israeli positions near the north end of the Suez Canal yesterday, apparently without suffering any losses. Although the Israelis are reported to have received only slight damage, the raid was the most successful Egyptian airstrike yet across the canal and will probably encourage the Egyptians to try further such actions.

The Egyptian action followed by one day the fifth Israeli airstrike at Egyptian positions along the canal in seven days. Nasir's speeches last week, however, reflected a mood of determined defiance. In addition, the senior US representative in Cairo believes that the Cairo regime is in less trouble than at other times since the 1967 war and that for the present, at least, the regime and the military identify with each other more closely than at any other time since the 1967 war.

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Czechoslovakia: Tensions are rising between the authorities and the populace and, at the same time, Czechoslovak-Soviet animosities reportedly have resulted in some violence.

As the anniversary of the invasion of 20 August 1968 approaches, the country has been swept with anonymous calls for anti-Soviet and antiregime demonstrations. The harassed Husak leadership blames the unrest on liberals who were in power last year, ignoring the massive popular support the appeals for at least passive resistance still evoke.

The government's situation is complicated by deep popular dissatisfaction which has adversely affected the economy. Productivity has fallen as a result of widespread unorganized work slowdowns, and the uncertain psychological atmosphere has led to such a wave of buying that the economy cannot meet demands for consumer goods. In addition, there is a shortage of foods, especially meat and eggs, which now is lamely being blamed on Soviet, Bulgarian, Hungarian and Rumanian suppliers. Premier Cernik is increasingly becoming the popular scapegoat for this situation.

The police and the army have again been ordered to take energetic measures against lawbreakers, including recalcitrant workers, and party activists and news media are to wage a political "offensive" against enemies and provocateurs. There have been some arrests for production and dissemination of antistate leaflets. The party is successfully putting pressure on the leaders of mass organizations such as trade unions to head off civil unrest among their members. There are reports that no new foreign students or correspondents will be allowed entry until after 21 August.

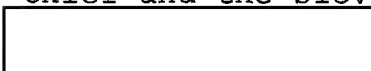
Tempers are short and an armed clash between Czechoslovak soldiers and Soviet occupation troops

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has been reliably reported to have taken place in
Karlovy Vary on 11 July.

Such matters were likely to have been discussed
by Brezhnev with party boss Husak and President Svo-
boda in Warsaw on 23 July, and with the Slovak party
chief and the Slovak premier in Moscow on 25 July.



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El Salvador - Honduras: The issue of troop withdrawals is still a key one in the search for a successful OAS formula to end the crisis.

The OAS delegates will submit proposals by midnight tonight and hope to close the foreign ministers meeting by 31 July. Colombian Foreign Minister Lopez Michelson, president of the conference, and Mexico's Carrillo Flores are making special efforts to get some flexibility in the Honduran and Salvadoran positions.

El Salvador continues in its refusal to pull its troops back from Honduras until it receives satisfactory guarantees for the security of Salvadoran citizens in Honduras. There may be, however, some withering of Salvadoran intransigence. President Sanchez has publicly expressed confidence in the OAS, and the Salvadoran chief of staff has altered his earlier hard line. He now appears resigned to the view that the OAS offers the only feasible solution to the issue of Salvadoran residents in Honduras. It is not clear yet whether domestic political requirements in El Salvador will preclude troop withdrawal without a show of force by OAS military contingents.

Opinion throughout Honduras remains highly suspicious of Salvadoran intentions and there has been widespread expectation of renewed conflict. A pro-government rally by labor organizations previously at political odds with the Lopez administration demanded immediate expulsion of the Salvadoran invaders.

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There have been no violations of the cease-fire, but El Salvador has violated the prohibition against military flights.

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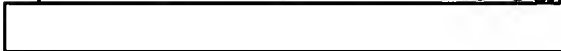
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Communist China: Imports of fertilizer and grain from the Free World continue to help maintain the delicate balance between food production and population growth in Communist China.

Peking recently signed contracts with its two major suppliers of fertilizer--Japan and a West European consortium--for 5.4 million tons with delivery scheduled from mid-1969 to mid-1970. The amount of fertilizer to be delivered under these contracts is 15 percent less than the record level imported during the previous 12-month period. Although additional purchases from several minor suppliers will not raise fertilizer imports to the 1968-69 level, the difference in China's total fertilizer supply could be made up by expected increases in domestic fertilizer production, which accounts for almost half of China's supply.

Contracts for 1969 delivery of wheat from the West so far this year have reached 4.5 million tons, slightly above the level imported last year. Rumors persist that China will renew its long-term grain purchase agreement with Canada which expires this August. Canada currently has sizable stocks of wheat on hand, as do the other major wheat producers.



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Brazil: The government is moving ahead with some of the measures to restore a limited degree of political normality that President Costa e Silva outlined to Governor Rockefeller last month.

Vice President Aleixo is now drafting amendments to the 1967 constitution that were recommended by a high-level advisory committee. The amendments reportedly have the President's approval. They are intended to make possible a limited return to political activity while at the same time assuring the executive sufficient control to prevent congressional challenges such as led to the adoption of severe authoritarian measures last December.

One major proposed change would have state representatives and the Congress elected in November 1970 choose a new President by mid-February 1971. Under the current setup, the outgoing Congress would choose Costa e Silva's successor. Another change would reduce the Senate from 66 members to 44 by limiting each state to two senators instead of the present three. The Chamber of Deputies would be slashed from 409 members to about 270.

One key amendment would abolish the constitutional article requiring that the permission of the Chamber be obtained before any member could be tried for abusing his legislative privileges. The political crisis in December 1968 was triggered by the Chamber's refusal to grant such permission despite administration and military pressure. The changes now being studied include a provision for the direct elections of governors in 1970, but this provision may be changed before the amendments are completed.

The proposed amendments will receive extensive review, probably by the cabinet, National Security Council, and possibly the Supreme Court. They finally will be submitted to the purged Congress, which is likely to be re-opened to accomplish this task in August.

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